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SUBJECT: Second Turkey-Iraq-US Gas Study Meeting in Istanbul

Ref: A) Ankara 756; B) Ankara 614

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¶1. (SBU) Summary. During the second trilateral gas working meeting held in Istanbul on Saturday June 30, Turkey's Under Secretary for Energy Sami Demirbilek reassured Iraqi PM Maliki's oil advisor Abd al-Ilah al-Amir and the Iraqi Ambassador, Dr. Jawad al Hindawi, of Turkey's intention to find ways to cooperate with the Iraqi central government in energy and to do so in "a respectful way and as a neighbor." Although unwilling to make formal commitments, Advisor al-Amir expressed willingness to "listen to all ideas" for cooperation and encouraged Turkey's Ministry of Energy to write letters formally suggesting cooperation projects in electricity, in the acceleration of the gas master plan, and in oil and gas exploration plans in the al-Nasiriyya region. Deputy Assistant Secretary Bryza noted the first goal for Iraqi gas is domestic use,

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but Bryza also described the great opportunity for Iraq to export gas to Europe and foster European and global energy security through supply diversity. After presentations by BOTAS and TPAO, and discussions of the status of security and the hydrocarbon law in Iraq, the working group concluded with an agreement to meet again in September. The first gas working group meeting was held March 9 in Istanbul. End Summary.

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Al-Amir: Listening to all ideas but, first, hydrocarbon law and the gas master plan
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¶2. (SBU) Iraqi Oil Advisor Abd al-Ilah al-Amir opened and ended his remarks stating that he is "all ears on the ways and means" for Iraq-Turkey energy cooperation, but he also described the "hard situation" in Iraq due to security. He explained the gas sector has been neglected for 30-40 years, but Iraqi thinking on gas has changed. The five non-associated fields in the north are not the only sources of gas, and gas and condensate resources are also in the Western Desert. Domestic needs are important. Power stations will be converted from liquids to gas. Gas will be needed for oil field maintenance and industrial uses. Furthermore, Iraq has agreed to join the Arab Gas Pipeline project with a spur to the line running from Egypt through Jordan and Syria to Turkey. Al-Amir explained "many unknown issues" exist and the purpose of Iraq's master gas plan is to clarify these. Al-Amir also detailed Iraq's "new circumstances" for hydrocarbon development once the new hydrocarbon law has been passed.

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Bryza and Demirbilek: EU is excited for the prospects of Iraqi gas

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13. (SBU) Bryza expressed hope that excess Iraqi gas can be exported to Europe in the future. Bryza also explained how Iraq fits into the EU energy security strategy. The possibility of obtaining gas from Iraq would give the EU more confidence in resisting Russian pressure, even if Europeans would need to be "patient" before actually receiving the gas. A "smarter" EU energy strategy would avoid exclusive long-term contracts with Russia, and instead seek leverage from access to Caspian and Iraqi supplies to negotiate more favorable terms with Gazprom. Undersecretary Demirbilek echoed these remarks explaining, "If Iraqi gas were available, it would provide an important alternative to Russia." Demirbilek suggested working towards an MOU or IGA between Turkey and the Iraqi Central Government to allow a framework for oil and gas exploration. Al-Almir explained that Iraq is not ready now for such agreements but did declare that Iraq will export gas in "all directions". Bryza re-emphasized that "we are here for Iraq" in a gesture of good will and shared interests, and would apply no pressure as our Iraqi friends make their sovereign decisions. Demirbilek clarified Turkey's view that Iraq is a good friend and neighbor. Turkey is willing to support all forms of bilateral energy cooperation, gas, oil, refineries, and electricity.

14. (SBU) Representatives from Turkey's BOTAS and TPAO put into context oil and gas cooperation with Iraq, including past projects, Turkey's strong interest in restoring the Iraq-Turkey (Kirkuk-Ceyhan) oil pipeline to active use, estimates of future gas production (with exports growing to 40-50 bcm), the potential for export through TGI Nabucco, and LNG from Ceyhan, as well as BOTAS/TPAO willingness to assist in completion of the gas master plan. TPAO and BOTAS said that while their previous work in the 1990s had focused on the five non-associated gas fields in the north, they were currently looking at Iraq as a whole, including ways to exploit currently flared associated gas in the south. TPAO estimated approximately 1 trillion cubic meters of gas reserves in northern Iraq, approximately evenly split between associated and non-associated gas.

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Next Steps

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15. (SBU) Turkish MFA Energy Affairs DDG Vural Altay asked al-Almir how best to cooperate while emphasizing only the central government of Iraq is the counterpart to the Republic of Turkey. He explained that GOT is currently advising Turkish companies can only proceed with exploration and cooperation if the central government approves. Demirbilek further explained that as a neighbor Turkey is not thinking of "taking product out" for commercial motives, rather Turkey is seeking a way to open the door to energy cooperation that will strengthen Iraq politically and economically. Altay referred to a letter that was sent from Turkey's Ministry of Energy to the Iraqi electricity minister with concrete proposals for how Turkey could help in the electricity sector (Note: We understand this letter was delivered during the course of the Neighbors' working group on energy on June 28-29. A copy of the letter is in para 10. End Note.)

16. (SBU) Al-Amir responded by ranking completion of the gas master plan as the highest priority and asked TPAO to write a letter to the Turkish Ambassador, which mentions this meeting, formally inquiring about how TPAO might support efforts develop the gas master plan in conjunction with ongoing efforts by the GOI with Shell's help. He also suggested that Turkey can help in oil and gas development and re-injection efforts, including at the provincial level. At Al-Amir's suggestion, TPAO also agreed to send a letter to the Iraqi central government and to the provincial government of al-Nasiriyya offer to assist in the development of oil and gas resources in that province. On the matter of contracts, al-Amir reminded everyone that the Iraqi Government will recognize no contracts that do not comply with the new hydrocarbon law. TPAO repeatedly sought confirmation that existing production sharing agreements with Iraqi Kurdish authorities would need to be reconciled with the hydrocarbon law

once that legislation is passed. Turkish Under Secretary Demirbilek warned that should Turkish companies choose to proceed with existing PSA's, they risked finding themselves of either having to restructure their projects in accord with the new hydrocarbon law or cease developing their projects. Al-Amir affirmed this was indeed the case. The Turkish Government stressed that it will not approve any actions by Turkish state-owned companies in Iraq without the express authorization and agreement of the Iraqi Government. The Turkish Ministry of Foreign Affairs noted the same applies to access to the Iraq-Turkish pipeline. As a side note, the Turkish MFA reported that it rebuffs requests from the Norwegian oil company DNO "every two weeks" for permission to ship its oil from a Kurdish field through the Iraq Turkish pipeline.

¶17. (SBU) From a Turkish suggestion, the Iraqis agreed to organize a meeting for Turkish companies in Iraq laying out what the GOI sees as investment needs in the energy sector and explaining the conditions and requirements for the Turkish private sector in Iraq. At Bryza's suggestion, all agreed to meet again, perhaps in September.

¶18. (SBU) Comment: This second trilateral meeting was positive in that it discussed a broader range of specific projects, and highlighted areas for potential cooperation. It was also useful to brief a higher level Iraqi delegation on the significant potential for Iraqi gas exports through Turkey. It was also clear that the Turks have to figure out how BOTAS and TPAO will work with various Iraqi parties, including the KRG, once the hydrocarbon law is passed. Overall, we agree with the observation made by several GOT delegates that we need to work together to make the GOI more comfortable in participating in this dialogue, including sending a larger delegation with higher representation at the next meeting. End Comment.

¶19. (U) Participating in the Meeting:

Iraq

- Ambassador Dr. Jawad Al Hindawi
- Oil Advisor, Prime Minister's Office, Abdulilah al-Amir

Turkey

- Under Secretary for Energy Sami Demirbilek
- MFA Energy Affairs Deputy Director Vural Altay
- Several other representatives from Turkey's Energy Ministry, Ministry of Foreign Affairs, BOTAS, and TPAO

U.S.

- Deputy Assistant Secretary Matt Bryza
- Director, NEA/I-ASSIST, Laird - Treiber

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- Robert Boynton, ECON, Embassy Baghdad
- Thomas Goldberger, ECON, Embassy Ankara
- Mike Mauel, Embassy Ankara

¶10. (SBU) Letter sent by Turkey's Minister for Energy Dr. Mehmet Hilmi G|ler to Iraq's Minister of Electricity Dr. Kareem Waheed, dated 20 March 2007.

Begin text:

H.E. Dr. Kareem Waheed
Minister of Electricity
Republic of Iraq

Excellency,

As a follow up to our bilateral meeting of March 20, 2007, which I have found very useful and promising in the field of energy cooperation between Turkey and Iraq, I would like to underline once again that upon your request Turkey is ready and willing to help to overcome its difficulties in the energy sector.

In this vein, we are ready to cooperate with you to meet Iraqi electricity demand for which you have asked assistance during our meeting. As I have mentioned in our meeting, supply of cheap crude

oil and natural gas by Iraqi side to Turkey would play an essential role to meet your electricity demand in the short term. Different mechanisms can be jointly developed to extend cooperation in this field. Our immediate proposals for this cooperation can be summarized as follows:

-- making Kerk|k-Ceyhan crude oil pipeline fully operational as soon as possible,

-- receiving crude oil from Iraq through existing infrastructure for the sole purpose of producing electricity for Turkey and Iraq at the initial stage,

-- constructing a new electricity power plant in Turkey following your statement that Iraqi side is ready to allocate resources for the financing of the power plant project,

-- transmitting electricity from Turkey to Iraq through new transmission lines which were planned to be constructed,

-- with reference to your call for Turkish companies operating in the field of energy to invest in Iraq, utilizing the experience of TPAO in oil and natural gas exploration and other related activities,

Details of the proposals can be worked out jointly at your earliest convenience and as we have agreed during our meeting, I also would like to mention that we are ready for your further proposals for developing new projects and concrete mechanisms to realize these projects. An "Action Plan" for the next 5 to 10 years can be prepared to guide our cooperation in the energy sector in a structured manner.

Please accept, Your Excellency, the assurances of my highest consideration.

Sincerely Yours,

(signature)

Dr. Mehmet Hilmi G|ler
Minister

End text.

11. (U) Deputy Assistant Secretary Bryza cleared this cable.